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D E C I S I O N

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Countercyclical buffer rate

Decision by Finansinspektionen

Finansinspektionen has decided not to amend Finansinspektionen's regulations (FFFS 2014:33) regarding the countercyclical buffer rate.

The case

Finansinspektionen (FI), in accordance with Chapter 7, section 1 of the Capital Buffers Act (2014:966), shall set a countercyclical buffer guide and a countercyclical buffer rate each quarter.[1]

The purpose of the countercyclical capital buffer is to strengthen the banks' resilience when systemic risks increase. It is then possible to lower the buffer requirement or completely remove it in the event of a financial crisis or when circumstances otherwise justify a decrease. This releases capital, which gives the banks the possibility of maintaining large parts of their lending activities and thus alleviate a downturn in the economy.

The last time FI decided to change the countercyclical buffer rate was on 18 September 2018, at which time FI decided to raise it from 2 to 2.5 per cent.[2] This means that the new buffer rate of 2.5 per cent will apply as of 19 September 2019.

Finansinspektionen's assessment

In Q4 2018, the total debt of households and non-financial firms increased by 7.2 per cent on an annual basis. This can be compared to 8.1 per cent when FI last changed the buffer rate and 7.7 per cent in Q3 2018. Despite the slow-down, growth in total debt continued to grow faster than nominal GDP and at a rate that is not sustainable in the long run. As a result, total debt rose to

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[1] The countercyclical buffer rate is changed in multiples of 0.25 percentage points. There is no maximum buffer rate, but automatic reciprocity applies only up to 2.5 per cent.
[2] FI (2018), *Ändring av föreskrifter om kontracykliskt buffertvärde*. Published on www.fi.se on 18 September 2018, FI Ref. 18-11833. An English translation is available on the website.

162 per cent of GDP in Q4 2018, which is 3.7 percentage points higher than in the same quarter the previous year.

The primary cause behind the slower growth of total debt is the slow-down in the growth of household debt. Household debt increased by 5.5 per cent on an annual basis in Q4 2018. This is 0.4 percentage points lower than in the previous quarter and 1.2 percentage points lower than when FI most recently raised the buffer rate. The total debt of non-financial firms increased by 9.1 per cent on an annual basis in Q4 2018. This marks a decrease from the annual rates of 9.6 per cent in the previous quarter and 9.7 per cent when FI most recently raised the buffer rate. The decrease is primarily due to slower growth of the non-financial firms' market financing. Compared to the previous quarter, market financing decreased from 14.5 per cent to 12.7 per cent on an annual basis. At the same time, lending from Swedish monetary financial institutions (MFIs) to Swedish non-financial firms accelerated to 6.9 per cent on an annual basis compared to 6.7 per cent in the previous quarter. The credit-to-GDP gap calculated in accordance with the Basel Committee's standardised approach amounted to 2.48 per cent in Q4 2018. This means that the countercyclical buffer guide is set at 0.15 per cent.[3]

Interest rates in general continue to be low, and several central banks revised their interest rate curves downward in the beginning of 2019. Swedish and European risk premiums also decreased slightly in Q1 2019, but they are still higher than the levels from the summer of 2018. The conditions on the financial markets as a whole are judged to continue to be expansive. On the asset markets, share prices recovered after the downturn last autumn, and house prices remained at the same high and similar levels as in the past year. However, house prices in relation to household disposable income decreased since income has increased faster than house prices since Q3 2018. Stable house prices are a sign that the growth rate in lending to households may continue to slow.

FI's forecast shows that household debt is expected to grow at a slower rate, and it is expected to grow in line with the historical average GDP at the end of 2019. The gradual growth of household debt implies a reduction in the risks. It is FI's assessment that total debt will also grow at a slower rate. FI's forecast for total debt has been revised slightly downward since the previous decision. This revision is largely due to FI's assessment that the debt of non-financial firms will grow somewhat slower than before. FI's forecast shows that the growth rate is declining and total debt will grow on average at about 6.7

[3] It should be noted that the buffer guide is most suitable as an indicator of increases in the buffer rate – not decreases.

per cent on an annual basis up to Q4 2019. This continues to be faster than nominal GDP and what FI considers to be sustainable in the long run.

Taken together, the indicators show that the systemic risks in the financial continue to be elevated and remain at approximately the same levels as when FI raised the buffer rate to 2.5 per cent. FI therefore makes the assessment that the resilience of the banks continues to be satisfactory given the previously decided changes to the capital requirements.[4] Given the overall development on the market, Finansinspektionen has decided not to amend Finansinspektionen’s regulations (FFFS 2014:33) regarding the countercyclical buffer rate.

A decision in this matter was made by Director General Erik Thedéen following a presentation by Analyst Niclas Olsén Ingefeldt. Henrik Braconier (Chief Economist) and Analyst Viktor Thell also participated in the final procedure.

FINANSINSPEKTIONEN

Erik Thedéen
Director General

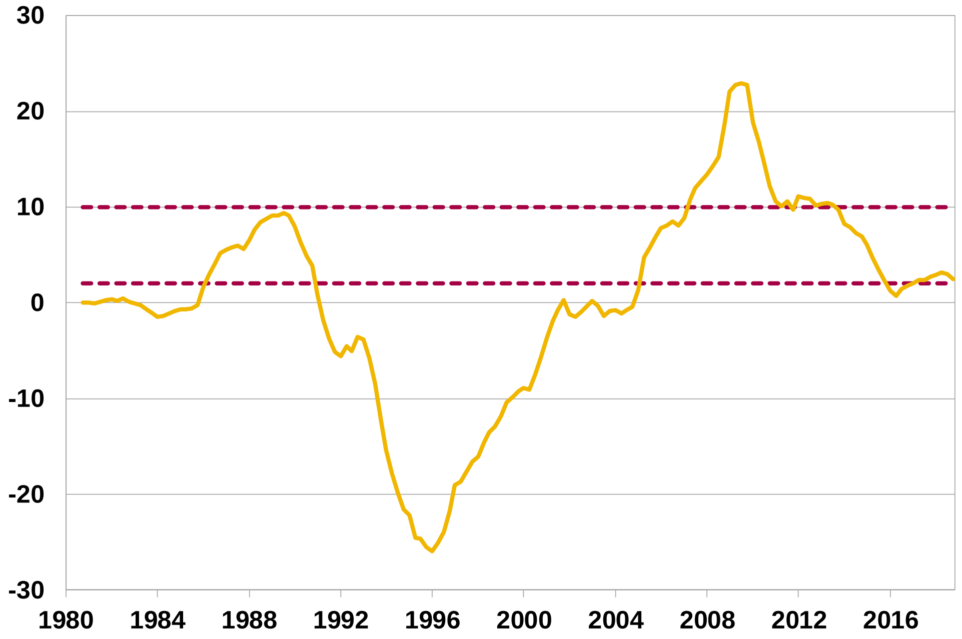
Niclas Olsén Ingefeldt
Analyst

[4] The banks’ CET1 ratio decreased in Q4 2018 as a result of the changed method for the application of the risk weight floor for Swedish mortgages, which was previously applied through Pillar 2 and has now been replaced with a requirement within the framework of Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council. As a result of this change, the capital requirement is included as a requirement in Pillar 1 starting in Q4 2018. This led to a decrease in the CET 1 ratio, but the effect on the capital requirements in SEK was negligible. This is due to the design of the measure, which aims to keep the same capital requirements in nominal terms as the current requirements. Consequently, Swedish banks will continue to be as resilient as previously.

Appendix 1: Indicators

1 Credit-to-GDP gap according to the standardised approach

Deviation from trend in percentage points

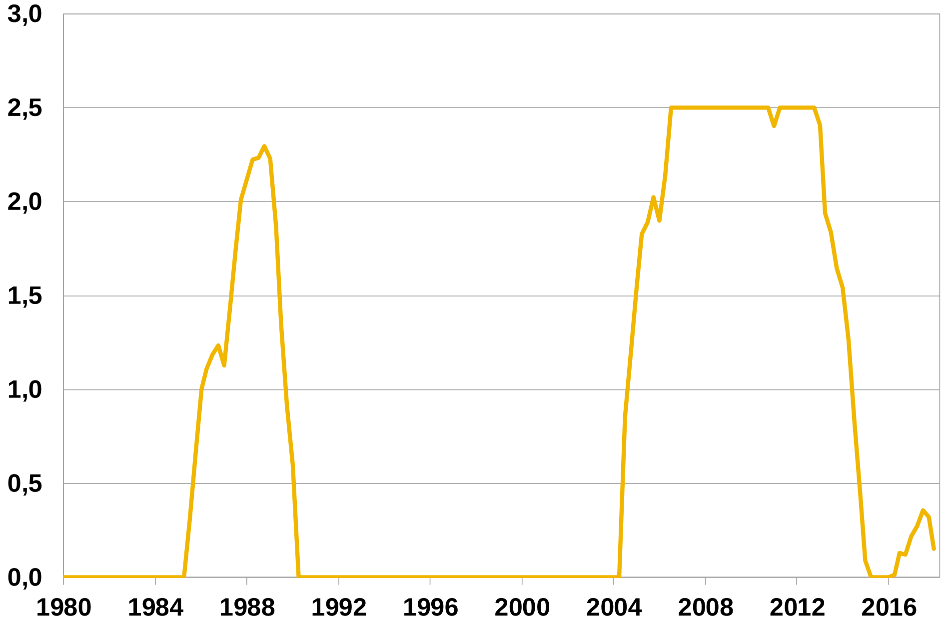


Note: The dashed lines show the thresholds (2 and 10 per cent, respectively) that according to the standardised approach are to be used to transform the credit-to-GDP gap into a buffer guide.

Source: FI and Statistics Sweden.

2 Buffer rate according to the standardised approach

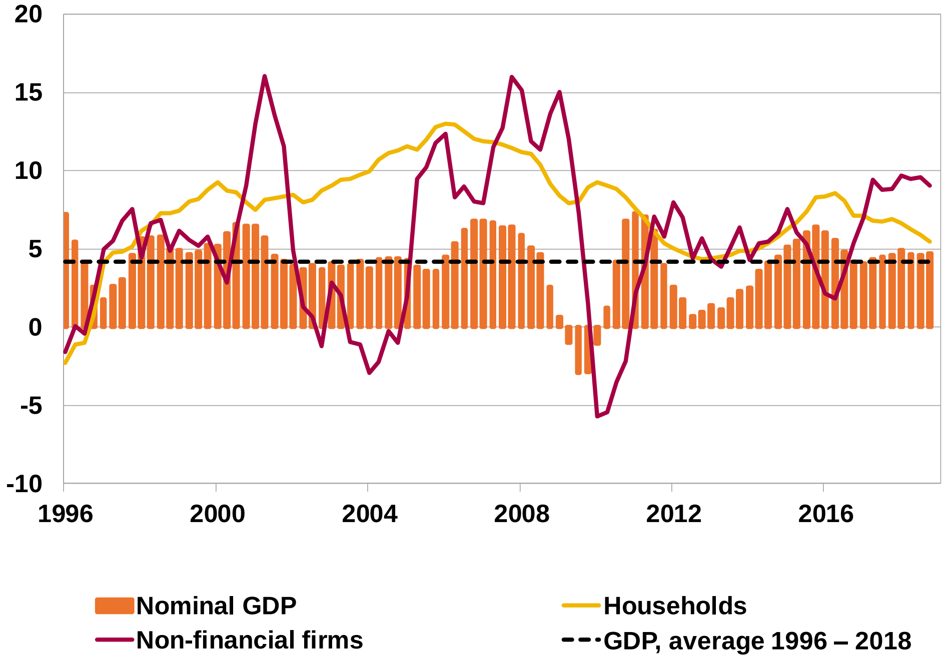
Per cent



Source: FI and Statistics Sweden.

3 Lending to households and corporates and nominal GDP

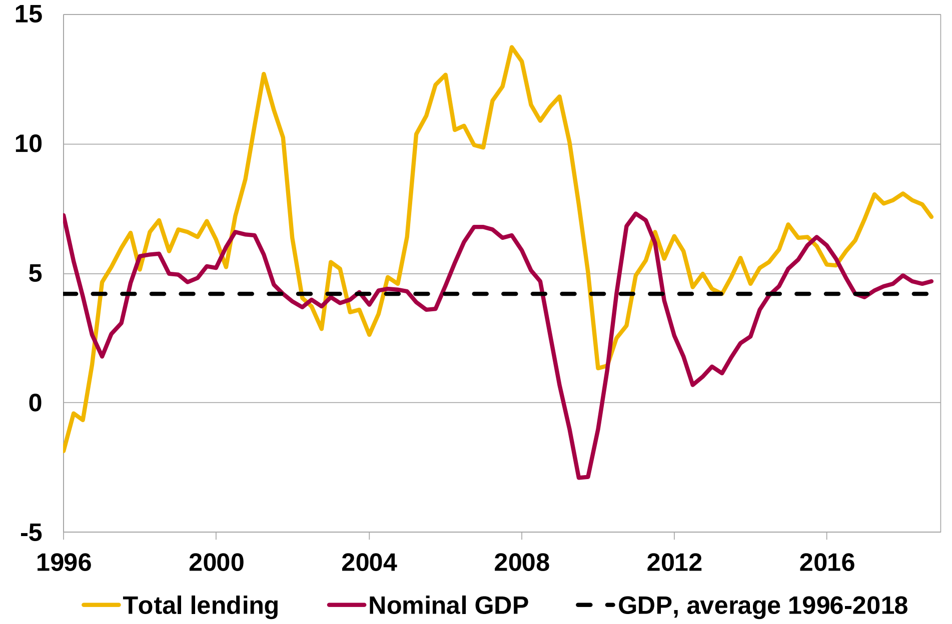
Annual change in per cent



Source: Statistics Sweden.

4 Total lending and nominal GDP

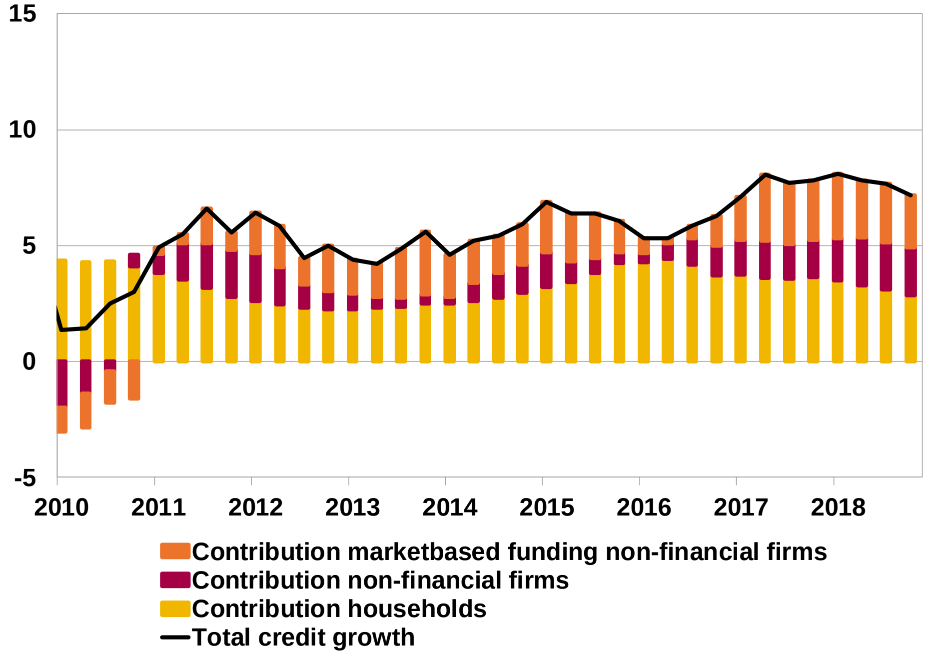
Annual change in per cent



Source: Statistics Sweden.

5 Contribution to change in total lending growth

Annual change in per cent

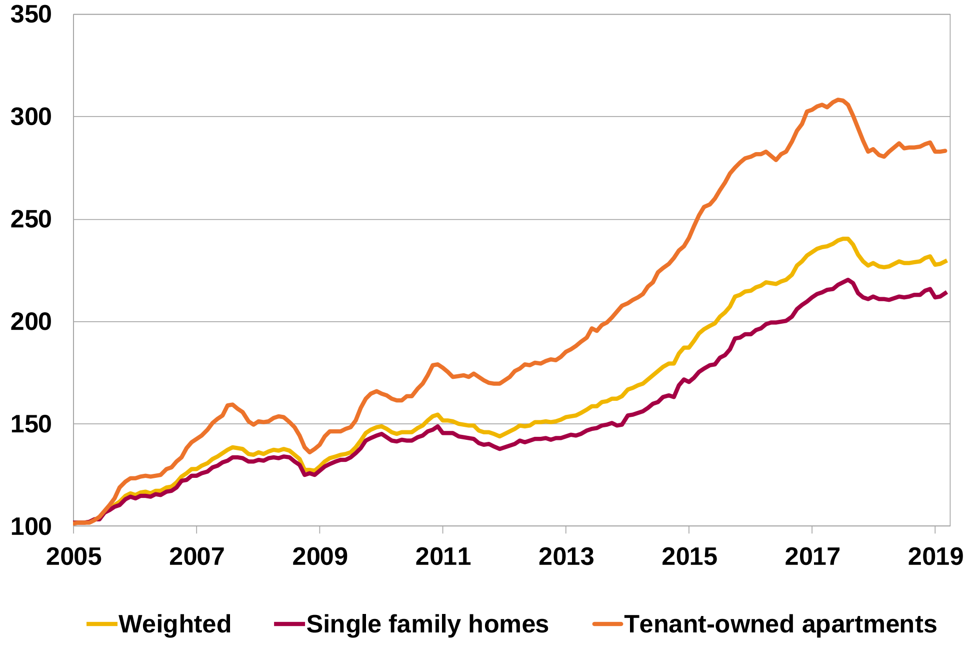


Note: Refers to total lending to households and corporates and their contribution to the annual rate of growth in per cent. Contribution of non-financial firms refers to MFI's lending to non-financial firms.

Source: FI and Statistics Sweden.

6 House prices in Sweden

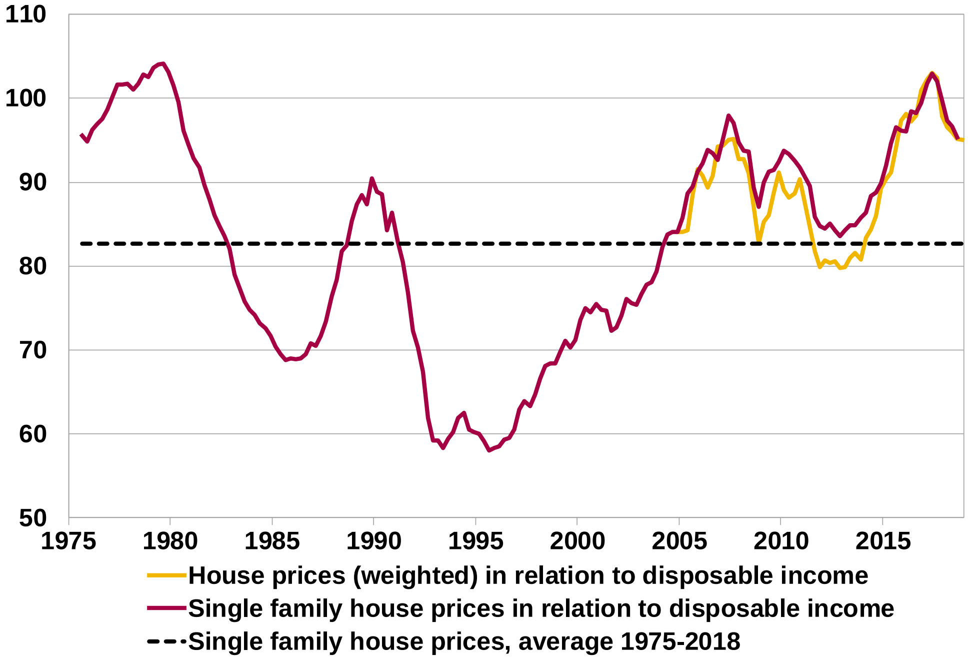
Index 100 = January 2005



Source: Valueguard.

7 House prices in relation to disposable income

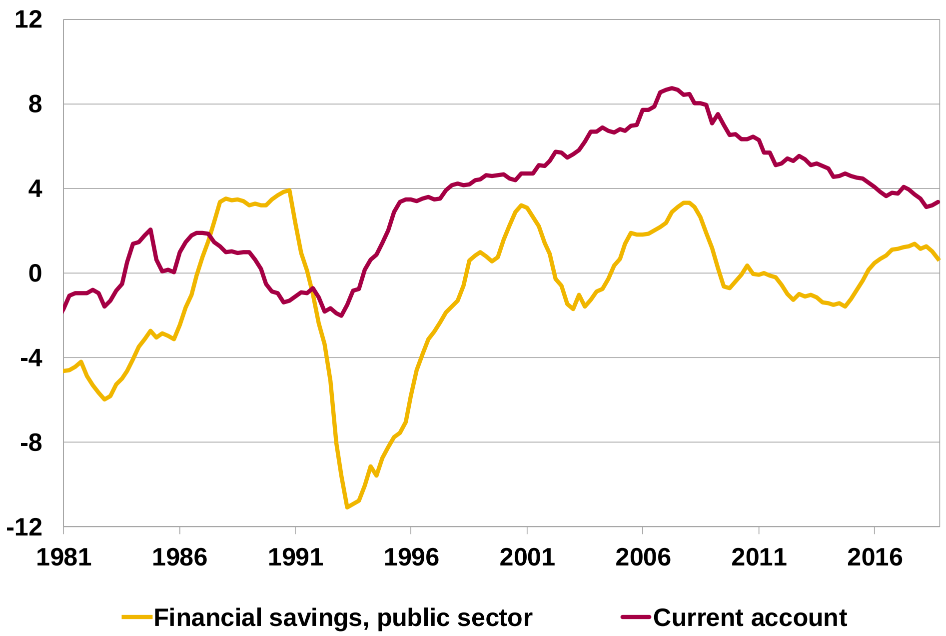
Index 100 = 1980



Source: Statistics Sweden and Valueguard.

8 Current account and financial savings in the public sector

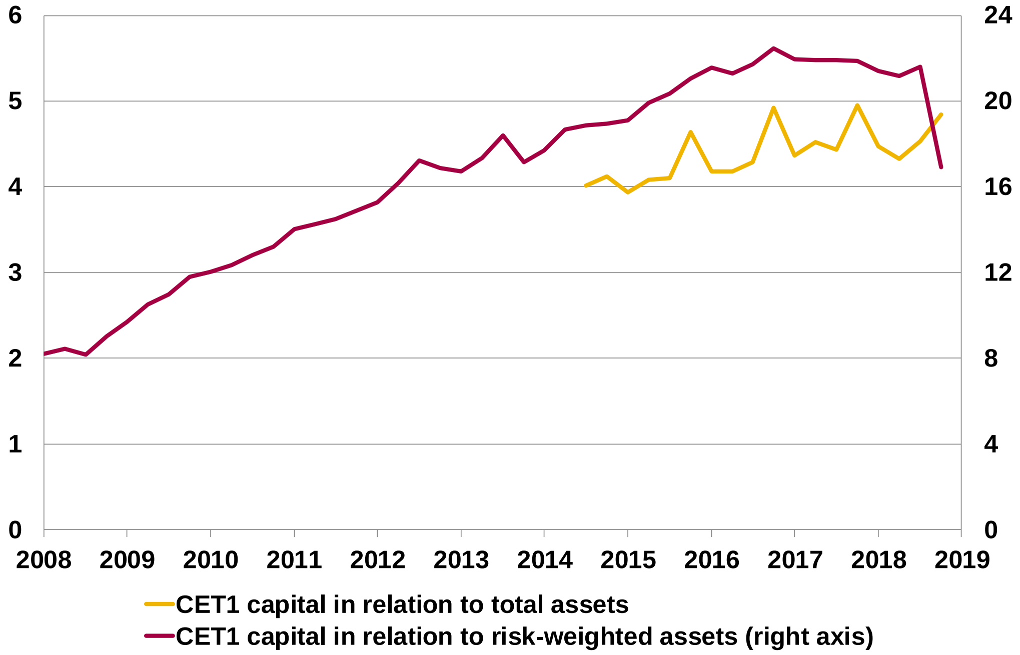
Per cent of GDP



Source: Statistics Sweden.

9 CET 1 capital

Per cent

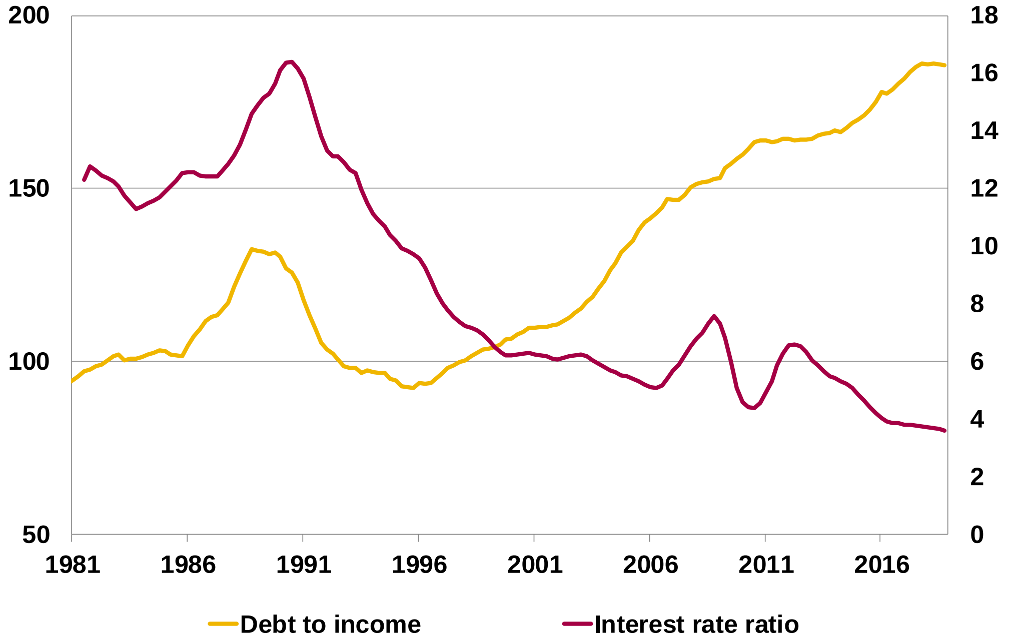


Note: The diagram shows an unweighted average for the three major Swedish banks. Total assets refer to the banks' consolidated situation.

Source: FI.

10 Household debt and interest rate payments in relation to income

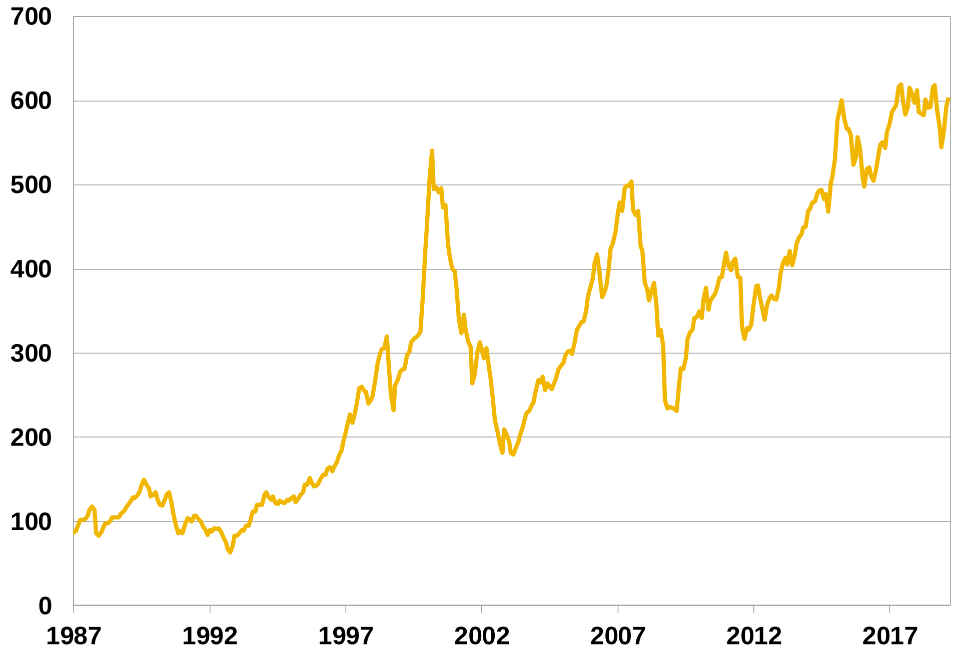
Per cent of disposable income



Source: Statistics Sweden.

11 Real share prices

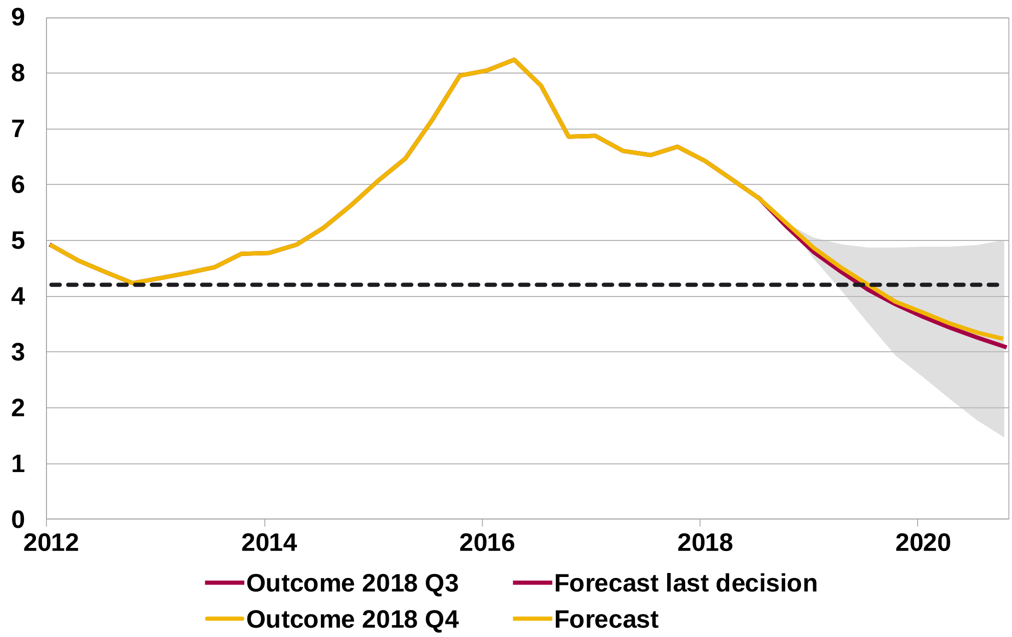
Index 100 = 1987



Source: SCB and Thomson Reuters Datastream.

12 Forecast for corporate nominal debt

Annual change in per cent

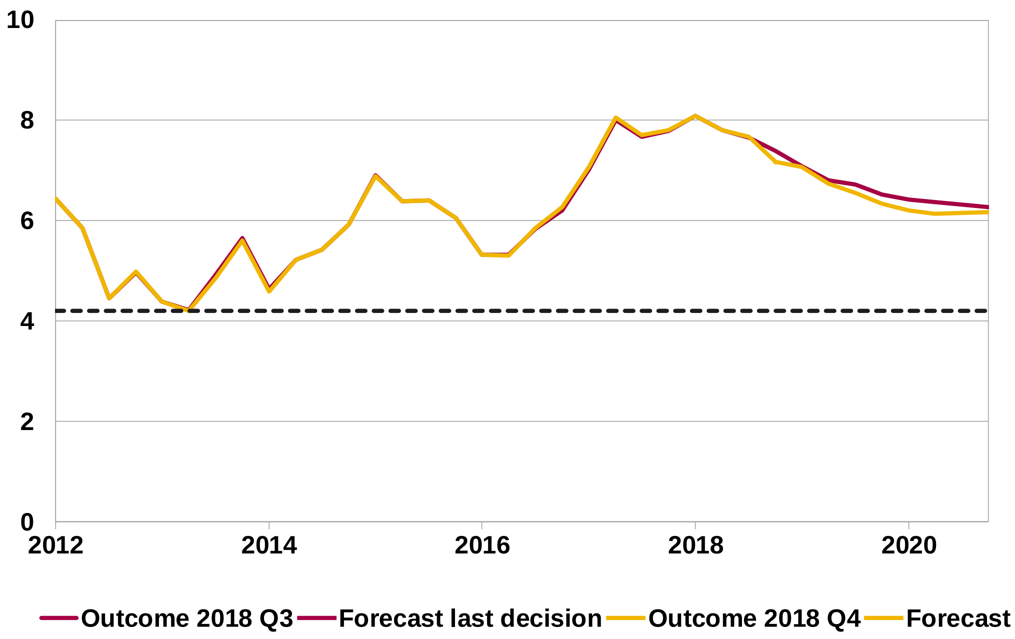


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

13 Forecast for total lending

Annual change in per cent

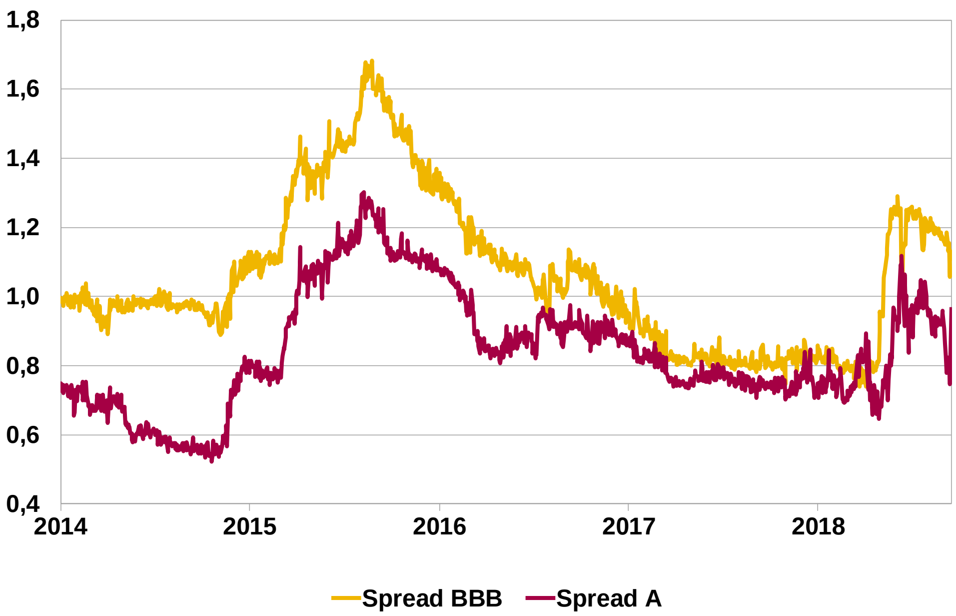


Note: The dotted black line marks the average growth in nominal GDP.

Source: FI and Statistics Sweden.

14 Swedish risk premiums

Percentage points

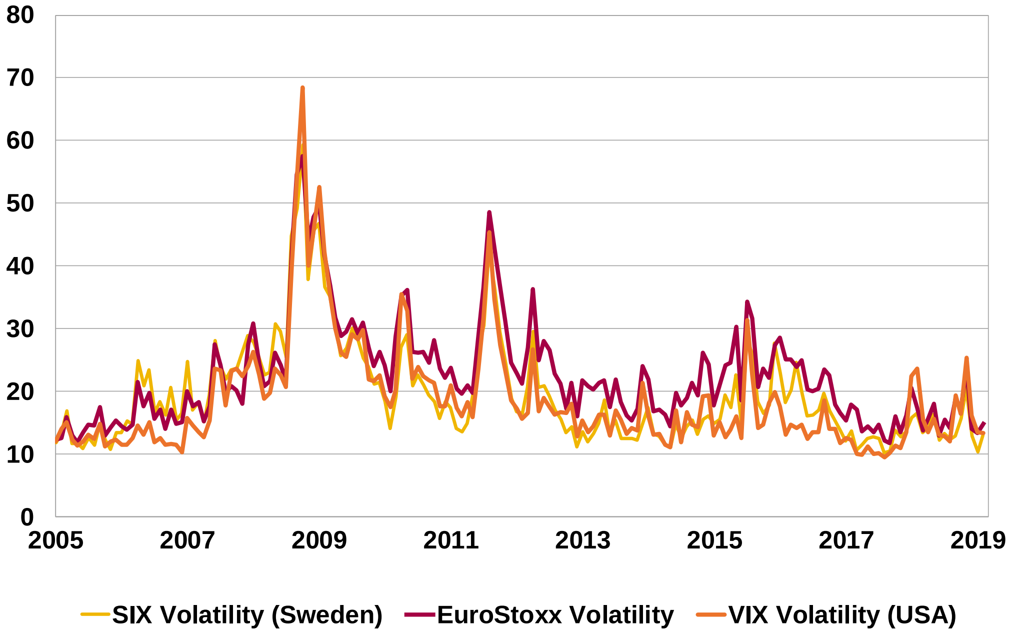


Note: Differences in interest rates for corporate bonds with different credit ratings in Sweden. The difference is calculated between the return for an index of Swedish corporate bonds (Thomson Reuters Sweden corporate benchmark) with a maturity of five years and a Swedish swap rate.

Source: Thomson Reuters Datastream.

15 Volatility index

Standard deviation



Note: Implicit volatility calculated from index option prices. The last publication of SIX Volatility (Sweden) was September 2018. An average of OS30C implicit volatility estimated for calls and puts is used instead for the last three months of 2018.

Source: Thomson Reuters Datastream.